

VZCZCXRO4936
OO RUEHDT RUEHPB
DE RUEHHM #0456/01 1610651
ZNR UUUUU ZZH
O P 100651Z JUN 09
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5844
INFO RUCPDO/USDOC WASHDC PRIORITY 0138
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE
RUEHHI/AMEMBASSY HANOI PRIORITY 3818
RUEHHM/AMCONSUL HO CHI MINH CITY PRIORITY 6080

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000456

SENSITIVE
SIPDIS

STATE FOR EAP/MLS, USAID/ANE, EEB/TPP/BTA/ANA
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO
USTR FOR BISBEE
TREASURY FOR CHUN

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [ELAB](#) [PREL](#) [SOCI](#) [VM](#)

SUBJECT: GLOBAL DOWNTURN SQUEEZES HCMC EXPATS, BUT MOST STAYING PUT
FOR NOW

HO CHI MIN 00000456 001.2 OF 002

11. (SBU) Summary: Contrary to anecdotal evidence of a mass exodus, interviews with international schools, relocation firms and expat chambers of commerce indicate that the actual effect of the economic downturn on HCMC's expat community is more complex: Koreans are leaving in large numbers, the Taiwanese and Singaporean communities are stable, and departures of U.S., European, and Australian expats are up ten percent over last year and increasing. Business associations say the consolidation of supply chains by international exporters has hit Korean subcontractors hard, while Taiwanese and Singaporean firms are weathering the downturn aided by the deep roots and long-term perspective that come with being the first to invest in Vietnam. The drive to cut costs is accelerating the replacement of expat managers with Vietnamese personnel, a dynamic fueled by the increasing numbers of overseas Vietnamese returning to Vietnam to seek employment. End Summary.

PSST! Did You Hear Who's Leaving Town?

12. (SBU) A recurring theme of expat cocktail party chat and elevator banter is the growing wave of foreigners leaving HCMC. Everyone knows someone who saw half a dozen expat families move out of their building or heard that a prominent international firm is downsizing and sending employees home. Newspaper articles report that the links are deserted and golf shops are hurting for business. Interviews with international schools, relocation firms and expat chambers of commerce, however, reveal a more nuanced picture. While HCMC's Taiwanese and Singaporean populations remain fairly stable, departures of U.S., European, and Australian expats are up about ten percent year-on-year and seem poised to increase further, although a portion of this outflow may owe as much to a natural tendency toward localization of the workforce as to companies downsizing. Meanwhile, large numbers of Koreans have already left Vietnam as funding for Korean construction projects dries up and small Korean exporters lose orders.

13. (SBU) Chambers of commerce, international schools and commercial law firms all report large numbers of Koreans leaving the HCMC area. Twenty percent of Korean-invested manufacturing or construction firms have closed in last four months and 80 percent of the remaining firms are experiencing severe difficulties and cutting Korean management staff by one third to a half, according to Mr. Chang Keun Lee Chairman of the Korean Chamber of Commerce and Industry (KoCham) in Vietnam. Officials at the HCMC Australian international school described the unprecedented mid-semester withdrawal of Korean students, and a

Singaporean law firm told EconOff that the number of Korean firms seeking legal advice regarding business liquidations has skyrocketed.

Weak Won and Streamlined Supply Chains Hurt Korean Firms

14. (SBU) The depreciation of the won has dried up project financing for HCMC construction projects, and the forty to fifty percent drop in garment and footwear orders from Europe, Japan and the United States has hit Korean small and medium-sized enterprise (SMEs) hard, according to KoCham's Mr. Lee. Even manufacturers that are maintaining overall production levels in Vietnam are streamlining supply chains, often at the expense of Korean SMEs. A leading U.S.-branded footwear manufacturer, for example, recently ended its relationship with a Korean subcontractor, idling six thousand workers and Korean managers relocating its orders to other, more efficient factories elsewhere in Vietnam.

U.S., E.U., Aussie Expat Departures Building Steam

15. (SBU) A major international relocation company that services primarily American, European, and Australian clients told us that outbound traffic is up ten percent during the first quarter 2009 versus the same period last year, while first quarter inbound traffic is down by roughly the same amount. Second quarter data, while incomplete, show twice as many expats moving out of HCMC as for the comparable period last year. On the other hand, the Taiwanese and Singaporean chambers of commerce told us that although the number of their nationals newly investing in southern Vietnam has dropped precipitously, the number of Taiwanese and Singaporeans remaining in HCMC remains steady.

The Ties that Bind

HO CHI MIN 00000456 002.2 OF 002

16. (SBU) The directors of the Taiwanese Business Association and the Singaporean Business Group Ms. Duong Ngoc Phung and Mr. Benjamin Yap attributed their nationals' 'staying power' to the long term mindset of their investors. Nationals of both countries were among the first to invest heavily in Vietnam in the early nineties, and were more likely to buy factories and land use rights, while Korean investors arriving later, generally rented factories and bought used equipment, investing for the short-term, according to Ms. Phung and Mr. Yap.

Cutting Corners Instead of Leaving

17. (SBU) Expats of all nationalities are cutting costs to forestall departure, hoping the economy recovers. Three different relocation firms told us that the domestic portion of their business -- moves within the area -- has surged in recent years. After commercial and residential rents skyrocketed two years ago, many expats moved homes and offices to less expensive locales outside downtown HCMC. Now that the downturn has brought rents way down, many are returning to the city center. Movers also report that many international clients are eliminating rotations between branch offices, and assigning 'cheaper' expats -- younger, childless individuals or couples, in order to reduce housing and education costs. The hard hit Korean community is also saving on education expenditures. Mr. Tae Oun Kim principal of the HCMC Korean School said enrollment has increased over ten percent in each of the last two years, as parents transfer their children from \$10,000 per year international schools to the Korean School where annual tuition is \$2,000 USD.

Downturn Generates Opportunities for Local Managers

18. (SBU) The global downturn and commensurate need to cut costs are accelerating the trend of foreign and large domestic firms replacing expat employees with Vietnamese. Ms. Loan Le, founder of HCMC's premier headhunting firm, told us that foreign and large domestic firms are increasingly filling general manager

positions, previously staffed almost exclusively by expats, with local hires.

Overseas Vietnamese Return Seeking Opportunities

¶9. (SBU) Fueling the 'Vietnamization' of HCMC's managerial class and bucking the trend of expat outflow, growing numbers of overseas Vietnamese are returning to their ancestral homeland to search for job opportunities that the global downturn has diminished in the United States, Canada, and Australia. Several HCMC human resource firms told us that the number of resumes received from overseas Vietnamese have increased by twenty five to thirty percent in the last year. Most of the successful career placements have been in the finance, information technology, public relations and business administration fields, with average salaries starting at \$2,500 per month for non-executive level positions.

Comment:

¶10. (SBU) The 'common wisdom' of a mass exodus of expatriates from HCMC is wrong. While the global downturn has set some of the expat community in motion, much of that activity is internal, changing residential, school or work locations according to new economic conditions. This is further evidence that the global downturn is a transformational as opposed to cataclysmic event for HCMC, accelerating ongoing processes such as the 'Vietnamization' of the managerial class and the return of overseas Vietnamese. Whether the projected additional increases in departures of U.S., European and Australian expats materialize likely depends on whether U.S., European and Japanese demand rebounds. End Comment.

¶11. (U) This cable was coordinated with Embassy Hanoi.
FAIRFAX